

Message Text

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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC PRIORITY 8335

UNCLAS SECTION 1 OF 3 ISLAMABAD 7258

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SUBJ: MEMORANDUM ON PAKISTAN WHEAT AID REQUIREMENTS FOR
1978/79 DATED JULY 1978

REF: A) ISLAMABAD 7150 B) ISLAMABAD 6905
C) ISLAMABAD 6557

SUMMARY: THIS MESSAGE SUMMARIZES AND COMMENTS ON GOVERNMENT
POLICIES IN THE MEMORANDUM TO EXPAND WHEAT PRODUCTION IN THE
1978/79 CROP YEAR. A WHEAT IMPORT GAP OF 2.3 MILLION TONS
IS PROJECTED AND THE GOVERNMENT REQUESTS BILATERAL AND
MULTILATERAL ASSISTANCE FOR A SUBSTANTIAL PART OF THE IMPORTS.
WE BELIEVE USG RESPONSE SHOULD BE LINKED TO GOP COMMITMENT
AND INITIAL ACTION ON A GROWTH ORIENTED PRODUCTION POLICY
UNDER TITLE III. END SUMMARY.

1. MEMORANDUM ON PAKISTAN'S WHEAT AID REQUIREMENTS WAS
OFFICIALLY PRESENTED TO CHIEFS OF MISSIONS AND INTERNATIONAL
AGENCIES AT JULY 25 MEETING CONVENED BY FINANCE AND ECONOMIC
AFFAIRS SECRETARY AFTAB AHMAD KHAN. MEMORANDUM STATES THAT
OBJECTIVE OF AGRICULTURAL POLICY IS SELF SUFFICIENCY
IS WHEAT AND MAXIMUM FEASIBLE INCREASE IN OTHER FOOD
GRAINS AND AGRICULTURAL PRODUCE. TO ACHIEVE THIS
OBJECTIVE PRINCIPAL MEASURES TO BE ADOPTED BY GOVERNMENT
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CENTER ON WHEAT/FERTILIZER PRICING POLICY, FERTILIZER
SUPPLY AND USE, PEST CONTROL, SEED, WATER AVAILABILITY,
AGRICULTURE CREDIT, MECHANIZATION, MARKETING, SUPPORT
PRICES FOR MAJOR CROPS, AGRICULTURE RESEARCH AND LAND
DEVELOPMENT.

2. AT MEETING SECRETARY KHAN DESCRIBED THE HISTORY OF

THE 70S WITH RESPECT TO WHEAT PRODUCTION AS QTE MUCH BELOW EXPECTATIONS END QTE. GOVERNMENT HAD HOPED FOR GOOD RESPONSE FROM LAST PLANTING BUT VAGARIES OF WEATHER, LACK OF FERTILIZER AND SEED AT SOME LOCATIONS ON TIMELY BASIS AND RUST PROBLEM HAD ERODED CROP PROJECTIONS SEVERALY. THE SECRETARY CHARACTERIZED THE CURRENT SITUATION AS AN EMERGENCY.

3. THE SECRETARY REITERATED WHAT APPEARS IN THE MEMORANDUM AS MEASURES TO BE ADOPTED BY THE GOVERNMENT TO STRIVE FOR SELF SUFFICIENCY IN WHEAT - NAMELY, A REVIEW OF PRICING POLICIES TO ENSURE THAT INCENTIVES EXIST, ENSURE FERTILIZER AND QUALITY SEED SUPPLY, PEST CONTROL, WATER AVAILABILITY, CREDIT, ETC.

4. ADDRESSING THE EMERGENCY, THE SECRETARY SAID HE REALIZED A NUMBER OF COUNTRIES/AGENCIES REPRESENTED AT THE TABLE DO NOT HAVE WHEAT TO PROVIDE BUT HE HOPED THEY MIGHT PROVIDE OTHER INPUTS SUCH AS FERTILIZER, SEED, TRACTORS AND PESTICIDES WHICH WOULD FREE UP EQUIVALENT FOREIGN EXCHANGE WITH WHICH TO PURCHASE WHEAT THUS NOT UPSETTING FURTHER A DELICATE BALANCE OF PAYMENTS SITUATION: OTHERWISE PAKISTAN COULD FIND ITSELF SPENDING \$300 MILLION FOR WHEAT PROCUREMENT.

5. SECRETARY KHAN MENTIONED THE DONOR MEETING TO BE UNCLASSIFIED

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CONVENED BY IBRD TO ADDRESS THE FOOD PROBLEM. HE DESCRIBED THE AUGUST 10 DATE AS TENTATIVE. WHILE ON THE ONE HAND HE WANTED TO DEAL AS RAPIDLY AS POSSIBLY WITH THE FOOD GAP, HE ALSO WAS AWARE THAT DONORS WOULD EXPECT IN SOME DETAIL WHAT THE GOP INTENDS TO DO TO ADDRESS THE PRODUCTION SIDE OF THE QUESTION.

6. DISCUSSION AND COMMENT:

A. AMBASSADOR HUMMEL SAID THE USG WANTED TO BE AS HELPFUL AS POSSIBLE BUT IF A POSTPONEMENT OF THE MEETING WOULD ENABLE THE GOP TO COME TO THE TABLE WITH CONCRETE POLICIES AND STEPS IT INTENDS TO IMPLEMENT IN A PRODUCTION STRATEGY, THEN HE WOULD AGREE THAT A POSTPONEMENT WAS DESIRABLE: HE SAID THE USG WAS INTERESTED NOT ONLY IN HELPING WITH THE IMMEDIATE FOOD PROBLEM BUT WAS DEEPLY INTERESTED IN WHAT THE GOVERNMENT INTENDS TO DO SO THAT IN NO WAY WOULD FOOD AID BECOME A DISINCENTIVE TO PRODUCING MORE WHEAT.

B. THE CANADIAN AMBASSADOR STATED HIS GOVERNMENT HAD LITTLE INTEREST IN DIRECT FOOD AID OUTSIDE OF MSA COUNTRIES BUT CERTAINLY IT WAS INTERESTED IN THE

GOVERNMENT'S POLICIES AND PLANS TO DEAL WITH THE
SUBSTANCE OF A PRODUCTION STRATEGY AND ITS RATION SHOP
SYSTEM.

C. OTHER QUESTIONS CENTERED ON THE CAPACITY OF THE
KARACHI PORT TO HANDLE THE VOLUME OF WHEAT AND OTHER
IMPORTS BEING DISCUSSED AND TRANSPORT FACILITIES TO MOVE
THAT VOLUME UP COUNTRY. SECRETARY KHAN RESPONDED BY
SAYING HIGH POWERED COMMITTEES HAVE BEEN ESTABLISHED TO
DEAL WITH TRANSPORT, SEED AND FERTILIZER. HE SAID GREATER
RELIANCE WOULD BE PLACED ON TRUCK TRANSPORT FOR MOVING
GOODS OUT OF THE PORT.

7. HIGHLIGHTS OF THE MEMORANDUM DEALING WITH MEASURES
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TO BE ADOPTED OR THOSE IN PLACE TO INCREASE PRODUCTION
FOLLOW:

A. WHEAT/FERTILIZER PRICING POLICY : RUPEES 37 PER
MAUND (ABOUT \$102 MT) IS "CLOSE TO THE PREVAILING U.S.
PRICE". FERTILIZER IS HEAVILY SUBSIDIZED. FARMERS CAN
OBTAIN ONE POUND OF NITROGENOUS FERTILIZER FOR 3 LBS. OF
WHEAT.

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B. FERTILIZER: ABOUT 394,900 NT OF FERTILIZER
WAS APPLIED TO WINTER 1977/78 CROP (INCLUDING WHEAT), UP

11 PERCENT FROM PREVIOUS YEAR. AN INCREASE OF 14 PERCENT OVER 1977/78 IS PROJECTED FOR THE CURRENT 1978/79 CROP YEAR.

C. SEED: QUALITY WHEAT SEED TOTALING 29,900 TONS WAS DISTRIBUTED BY GOVERNMENT TO FARMERS IN 1977/78. "A MODERN SEED INDUSTRY PROJECT HAS BEEN SET UP WITH THE ASSISTANCE OF IDA WHICH WILL PRODUCE, PROCESS AND DISTRIBUTE HIGH QUALITY SEEDS OF MAJOR CROPS, INCLUDING WHEAT, DURING NEXT FEW YEARS."

D. MARKETING: IN VIEW OF PROBLEMS ENCOUNTERED BY FARMERS IN MARKETING THEIR PRODUCE, GOVERNMENT HAS ESTABLISHED PAKISTAN AGRICULTURE SERVICES AND STORAGE CORP. "TO HELP THE FARMERS IN GETTING REASONABLE RETURNS ON THEIR PRODUCE AND ARRANGING THE EXPORT OF SURPLUS COMMODITIES."

E. AGRICULTURE RESEARCH: A NUMBER OF NEW VARIETIES OF WHEAT, RICE, MAIZE, HAVE BEEN EVOLVED AND RELEASED FOR COMMERCIAL CULTIVATION.

F. LAND DEVELOPMENT: WITH ONGOING USAID ASSISTANCE, UNCLASSIFIED

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WHEAT PRODUCTION IN RAINFED OR BARANI AREAS IN PUNJAB AND NWFP IS EXPECTED TO "INCREASE CONSIDERABLY".

8. THE MEMORANDUM CONTINUES: WHEAT PRODUCTION IN 1977/78 (THE CROP JUST HARVESTED) WAS 8.10 MILLION MT COMPARED TO A TARGET OF 9.5 MILLION MT. THE REASONS FOR THE SHORTFALL ARE:

A. DECLINE IN ACREAGE PLANTED TO WHEAT OF ABOUT 100,000 ACRES: THIS LAND WAS PLANTED TO COTTON.
B. UNFAVORABLE WEATHER: TOO LITTLE RAIN AFTER SOWING, WET AND COOL WEATHER IN MARCH/APRIL WHICH ENCOURAGED THE SPREAD OF RUST.

9. THE IMPORT REQUIREMENT IN 1978/79 IS EXPECTED TO BE 2.3 MILLION MT, CALCULATED AS FOLLOWS:

MILLIONS OF MT	
ESTIMATED PRODUCTION 77/78 CROP	8.158
LESS FEED, SEED, WASTAGE	.816
NET AVAILABILITY FOR CONSUMPTION	7.342
ESTIMATED CONSUMPTION REQUIREMENT (3 PERCENT INCREASE IN POPULATION OVER 1977/78 AT THE RATE OF 12 OZ. PER DAY	9.594
DEFICIT	2.252

GOVERNMENT HAS ADDED 50,000 TONS TO THE DEFICIT TO BUILD CARRYOVER STOCKS END OF 1978/79 UP TO A MINIMUM WORKING

RESERVE OF 500,000 TONS. TOTAL IMPORT REQUIREMENT IS THEREFORE, 2.3 MILLION MT. ADE MEMOIRE CONCLUDES: PAKISTAN WOULD NOT BE ABLE TO USE CASH FOR WHEAT IMPORTS "WITHOUT SUBJECTING ITS ALREADY PRECARIOUS BALANCE OF PAYMENTS POSITION TO SEVERE STRESSES AND STRAINS AND WITHOUT DISRUPTING ITS DEVELOPMENT EFFORTS." THE GOVERNMENT SEEKS BILATERAL AND MULTILATERAL FOOD AID FOR A SUBSTANTIAL PART OF THE IMPORT REQUIREMENT.

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10. OUR COMMENTS ON THE FOREGOING SECTIONS OF THE AIDE MEMOIRE FOLLOW:

A. WHEAT/FERTILIZER PRICING POLICY: 37 RUPEES A MAUND (DOLS102 MT) NO LONGER IS CLOSE TO THE PREVAILING U.S. PRICE FOR WHEAT. AS OF JULY 21, 1978, U.S. SOFT RED WINTER WHEAT (SIMILAR TO THAT IMPORTED HERE) WAS \$124.93 FOB GULF. WE CONTINUE TO BELIEVE THAT AN INCREASE IN THE 37 RUPEE PER MAUND PROCUREMENT PRICE - IN EFFECT FOR 4 SEASONS - IS ONE OF THE ESSENTIAL PREREQUISITES TO EXPANDED WHEAT PRODUCTION.

B. FERTILIZER: WHILE TOTAL OFFTAKE WAS UP FOR THE 1977/78 CROP, THERE WERE SIGNIFICANT SHORTAGES OF DAP, AND IN SOME CASES, UREA, AT PLANTING TIME IN NOVEMBER AND DEC. 1977. WITH REGARD TO THE OFFTAKE PROJECTIONS FOR THE 1978/79 CROP (TO BE SOWN IN THE FALL OF CY 1978) WE BELIEVE THE GOVERNMENT'S ESTIMATES ARE OPTIMISTIC BECAUSE (1) ALL OF THE IMPORT REQUIREMENT HAS NOT YET BEEN ARRANGED: (2) THERE ARE LIKELY TO BE LOGISTICS DIFFICULTIES IN IMPORTING AND DISTRIBUTING THE QUANTITIES INVOLVED: AND (3) INITIAL PRODUCTION FROM THE NEW PAK ARAB PLANT IN MULTAN MAY NOT MEET EXPECTATIONS. (THESE ARE DISCUSSED IN GREATER DETAIL IN REF B.)

C. SEED: THE LACK OF SUFFICIENT QUANTITIES OF QUALITY, RUST RESISTANT SEED WAS UNDOUBTEDLY A MAJOR FACTOR IN THE DISAPPOINTING 1977/78 WHEAT CROP. WE ARE CONCERNED LAST YEAR'S EXPERIENCE WILL BE REPEATED IN 1978/79 CROP. THE WIDE PREVELANCE OF RUST SPORES FROM THE SPRING 1978 INFESTATION INCREASES THE PROBABILITY OF EVEN GREATER LOSSES FROM RUST IN 1979. THEREFORE, WE ARE URGING THE GOVERNMENT TO MOVE NOW TO INSURE ADEQUATE SUPPLIES OF DISEASE RESISTANT SEED.

D. AGRICULTURAL MARKETING: THE MEMORANDUM IS SILENT
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ON THE QUESTION OF PROVINCIAL BANS ON THE INTER DISTRICT
MOVEMENT OF WHEAT. WE CONTINUE TO BELIEVE SUCH
RESTRICTIONS ARE NOT EFFECTIVE IN INCREASING GOVERNMENT
PROCUREMENT (WITNESS THE EXPERIENCE OF THE PAST FEW MONTHS)
AND ARE INCOMPATIBLE WITH A GROWTH ORIENTED PRODUCTION
STRATEGY.

E. AGRICULTURE RESEARCH: THE FAILURE OF THE 1977/78
WHEAT CROP WAS, TO A LARGE EXTENT, THE FAILURE OF PAKISTAN'S
AGRICULTURE RESEARCH PROGRAM. THE WRONG VARIETIES WERE
RELEASED AND ENDORSED BY THE GOVERNMENT. IT IS A MATTER
OF IMMEDIATE CONCERN TO GET THE RESEARCH EFFORT BACK ON
TRACK. THE NEW HEAD OF ARC SHARES THIS VIEW.

F. LAND DEVELOPMENT: DESPITE THE POTENTIAL FOR
SUBSTANTIAL INCREASES IN WHEAT PRODUCTION IN FAINFED AREAS

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(WHERE GOVERNMENT/AID ASSISTANCE EFFORTS ARE LOCATED)
WE DO NOT ANTICIPATE A SIZEABLE PAYOFF IN THE SHORT RUN.

G. 1977/78 CROP: UNFAVORABLE WEATHER UNDOUBTEDLY
WAS A FACTOR IN THE LOW 1977/78 WHEAT CROP, BUT - AS NOTED
ABOVE - WE BELIEVE EVEN MORE SIGNIFICANT CAUSES WERE:
(1) INABILITY OF FARMERS TO OBTAIN QUALITY, RUST
RESISTANT SEED: (2) SHORTAGE OF FERTILIZER WHEN AND WHERE
IT WAS NEEDED: (3) INADEQUATE PROCUREMENT PRICE.
ONE ARGUMENT FOR MINIMIZING THE IMPORTANCE OF WEATHER IN
LOWER OUTPUT IS THE FACT THAT WHEAT PRODUCTION IN EAST
PUNJAB WAS UP. SEE REF C FOR FULLER ANALYSIS ON 78 WHEAT

CROP.

H. 1978/79 IMPORT REQUIREMENT: GOVERNMENT CALCULATIONS ON THE TOTAL CONSUMPTION REQUIREMENT ARE BASED ON ESTIMATE OF 12 OZ. PER DAY (UP FROM 11 1/2 OZ. PER DAY IN 1977/78) FOR EACH MEMBER OF THE POPULATION (75 MILLION IN THE AIDE MEMOIRE). THIS PER CAPITA CONSUMPTION OF WHEAT IS AN ARBITRARY FIGURE AND WE ARE NOT AWARE OF RELIABLE SUPPORTING DATA. (FOR EXAMPLE, THE RECENTLY CONCLUDED MICRO-NUTRIENT SURVEY ESTIMATES PER CAPITA CONSUMPTION OF WHEAT AT 16 OZ. PER DAY: THIS WOULD FAR EXCEED DOMESTIC PRODUCTION PLUS IMPORTS.) OF FAR MORE IMPORTANCE TO THE GOVERNMENT IN DETERMINING THE IMPORT REQUIREMENT ARE CALCULATIONS WHICH UNCLASSIFIED

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DO NOT APPEAR IN THE AIDE MEMOIRE THE SHORTFALL BETWEEN OFFTAKE IN THE PUBLIC SECTOR DISTRIBUTION SYSTEM AND GOVERNMENT PROCUREMENT. AS PREVIOUSLY REPORTED, ON THIS SET OF FIGURES WE THINK THE GOVERNMENT WOULD NEED TO IMPORT ABOUT 2 MILLION TONS (THE DIFFERENCE BETWEEN PROJECTED OFFTAKE (3.1 MILLION TONS) AND PROCUREMENT (ABOUT 1.1 MILLION TONS). THIS ASSUMES NO CHANGE IN STOCKS AND VERY LIMITED INTERVENTIONS BY GOVERNMENT ON THE OPEN MARKET TO SMOOTH OUT PRICE FLUCTUATIONS. EVEN TAKING THE LOWER 2 MILLION TON IMPORT REQUIREMENT THE GOVERNMENT WILL BE WILL BE HARD PRESSED TO IMPORT AND TRANSPORT THE WHEAT OUT OF KARACHI - PARTICULARLY WHEN PLANNED (AND NECESSARY) IMPORTS IN THE FALL OF 1978 OF FERTILIZER AND CEMENT ARE CONSIDERED.

I. USG RESPONSE TO IMPORT GAP: WE BELIEVE THAT U.S. RESPONSE SHOULD BE LINKED TO GOP COMMITMENT TO A MULTI-YEAR PROGRAM TO EXPAND PRODUCTION AND LIMIT PUBLIC SECTOR DISTRIBUTION. WE BELIEVE BEST VEHICLE FOR SUPPLYING WHEAT ON CONCESSIONAL TERMS (IN ADDITION TO TITLE I ALREADY PROGRAMMED), IN CONTEXT OF FIRM GOVERNMENT COMMITMENTS, IS UNDER TITLE III PROGRAM WHERE WE WOULD LINK ADDITIONAL WHEAT TO SATISFACTORY PERFORMANCE IN CARRYING OUT THE STRATEGY. WE ARE LOOKING FORWARD TO WASHINGTON AND GOP COMMENTS ON TITLE III DISCUSSION PAPER NOW IN WASHINGTON.
HUMMEL

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